

1 BEFORE THE
2 FEDERAL ENERGY REGULATORY COMMISSION
3 -----x
4 IN THE MATTER OF: : Docket Number
5 STATE-FEDERAL REGIONAL RTO PANELS : RT02-2-000
6 -----x Docket Number
7 GRIDSOUTH TRANSCO, LLC : RT01-74-000
8 -----x Docket Number
9 REGIONAL TRANSMISSION ORGANIZATIONS : RT01-100-000
10 -----x Docket Number
11 RTO INFORMATION FILINGS, et al. : RT01-1-000
12 -----x
13 REGULATIONS GOVERNING OFF-THE-RECORD : Docket Number
14 COMMUNICATIONS : RM98-1-002
15 -----x

16
17 CAROLINA REGIONAL RTO
18 PANEL DISCUSSION

19
20 The Commissioners' Library
21 Federal Energy Regulatory
22 Commission
23 888 First Street NE
24 Washington, DC
25 Monday, April 22, 2002

1 ATTENDEES:

2
3 For the Federal Energy Regulatory Commission:

4 Chairman Pat Wood, III

5 Commissioner Linda K. Breathitt

6 Commissioner Nora Mead Brownell

7 Commissioner William L. Massey

8
9 Christopher A. John, Technical Advisor to Commissioner

10 Breathitt

11 Charles Whitmore, Office of the Executive Director

12 Kevin Cadden, Director, Office of External Affairs

13 Marsha Gransee, Deputy General Counsel

14 Shaheda Sultan, Office of General Counsel

15 James Pederson, Advisor to Commissioner Brownell

16 Jonathan First, Office of General Counsel

17 Daniel L. Larcamp, Director, Office of Markets,

18 Tariffs and Rates

19 Shelton M. Cannon, Deputy Director, OMTR

20 Stephen P. Rodgers, Deputy Director, Tariffs and Rates

21 East, OMTR

22 Kevin A. Kelly, Director, Policy Innovation &

23 Communication, OMTR

24 Sanjeev G. Jagtiani, Utility Analyst, OMTR

25 --continued--

ATTENDEES (CONTINUED):

For the Federal Energy Regulatory Commission:

Edward M. Meyers, Director of State Relations, Office
of External Affairs

Sarah McKinley, State Relations, Office of External
Affairs

For the North Carolina Utilities Commission:

The Honorable Sam J. Ervin IV, Commissioner

The Honorable James Yancey Kerr II, Commissioner

The Honorable Michael S. Wilkins, Commissioner

The Honorable Jo Anne Sanford, Chair (by telephone)

The Honorable Robert V. (Bobby) Owens, Jr. (by
telephone)

The Honorable Lorinzo L. Joyner (by telephone)

Sam Watson, Office of General Counsel

Giselle Rankin, Staff Attorney, Public Staff Legal
Division

Roy Ericson

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1 ATTENDEES (CONTINUED):

2
3 For the South Carolina Utilities Commission:

4 The Honorable H. Clay Carruth, Jr., Vice Chairman (by
5 telephone)

6 The Honorable Randy Mitchell, Commissioner (by
7 telephone)

8 The Honorable Mignon L. Clyburn, Commissioner (by
9 telephone)

10 The Honorable C. Robert Moseley, Commissioner (by
11 telephone)

12 The Honorable James Blake Atkins, PhD, Commissioner
13 (by telephone)

14
15 Adelaide D. Kline, Staff Attorney (by telephone)

16 Randy Watts, Chief of Electric Utilities Department
17 (by telephone)

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1 PROCEEDINGS

2 MR. RODGERS: My name is Steve Rodgers with the
3 Commission Staff and the Office of Markets, Tariffs, and
4 Rates, FERC Staff. Why don't we go around the table and
5 identify who we have here. Ed, start with you.

6 MR. MEYERS: I'm Ed Meyers, Director of State
7 Relations, here with the Federal Energy Regulatory
8 Commission.

9 MR. WHITMORE: I'm Charlie Whitmore. I'm with
10 the Office of Executive Director at FERC.

11 MR. CADDEN: Kevin Cadden, Director of the
12 Office of External Affairs.

13 COMMISSIONER BROWNELL: Nora Brownell, and I'm
14 the person who does what I'm told.

15 COMMISSIONER ERVIN: I'm Jimmy Ervin, a member
16 of the North Carolina Utilities Commission.

17 MR. KELLY: I'm Kevin Kelly, director of the
18 office of Policy Innovation and Communication.

19 MR. JOHN: Chris John, adviser to Commissioner
20 Linda Breathitt.

21 MR. JAGTIANI: Sanjeev Jagtiani, Office of
22 Markets, Tariffs, and Rates.

23 MR. FIRST: Jonathan First, with FERC's Office
24 of General Counsel.

25 MS. RANKIN: Giselle Rankin, a staff attorney

1 with the public staff of the North Carolina Utilities
2 Commission.

3 MR. WATSON: Sam Watson.

4 COMMISSIONER WILKINS: Mike Wilkins,
5 Commissioner, North Carolina.

6 COMMISSIONER KERR: Jim Kerr, Commissioner,
7 North Carolina.

8 MR. LARCAMP: Dan Larcamp, the director of the
9 Office of Markets, Tariffs, and Rates on FERC staff.

10 MR. CANNON: Shelton Cannon, Dan's deputy.

11 MR. PEDERSON: Jim Pederson, adviser to
12 Commissioner Brownell.

13 MS. GRANSEE: Marsha Gransee, deputy general
14 counsel, FERC.

15 MS. SULTAN: Shaheda Sultan, Office of General
16 Counsel.

17 MS. MC KINLEY: Sarah McKinley. I work with Ed
18 Meyers on the state Commission.

19 MR. RODGERS: This is Steve Rodgers again, and
20 I will ask each of when you say -- we speak to identify
21 ourselves for the sake of the transcriber who is here --
22 let me get y'all calling in to identify yourselves, if you
23 could, for the sake of those of us here at the table and
24 also the transcriber. North Carolina, do you want to go
25 first?

1 COMMISSIONER JOYNER: Yes, good afternoon. I'm
2 Lorinzo Joyner, Commissioner.

3 COMMISSIONER OWENS: Bobby Owens, Commissioner
4 from North Carolina.

5 MR. ERICSON: Roy Ericson, Commissioner Staff,
6 North Carolina.

7 COMMISSIONER SANFORD: Jo Anne Sanford,
8 Commissioner from North Carolina.

9 MR. RODGERS: Thank you. Let's go to South
10 Carolina.

11 COMMISSIONER ATKINS: I'm in a room full of
12 folks. This is James Atkins, Commissioner, South
13 Carolina.

14 COMMISSIONER CLYBURN: Mignon Clyburn.

15 COMMISSIONER MITCHELL: Randy Mitchell, South
16 Carolina Commission.

17 MS. KLINE: Adelaide Kline, Staff attorney.

18 MR. WATTS: Randy Watts, part of the staff of
19 the South Carolina Commission.

20 COMMISSIONER CARRUTH: Clay Carruth,
21 Commissioner, South Carolina.

22 COMMISSIONER MOSELEY: Tom Moseley,
23 Commissioner, South Carolina.

24 MR. RODGERS: Is that it for South Carolina?
25 Okay. I just wanted to mention that our meeting today is

1 being transcribed under the requirements of our
2 Commission's rules. The FERC federal panel -- FERC state
3 panel, excuse me, requires that our RTO meetings be
4 transcribed and a copy of the minutes will be placed in
5 the record of the appropriate RTO proceedings here at
6 FERC, and interested parties will have a chance to
7 comment.

8 So that that might be made effective, I'd ask
9 that each of you please identify yourselves whenever you
10 make comments. Any questions about that? All right.

11 I want to also mention that only two of our
12 commissioners will be in the room at any given time,
13 according to the Commission's rules that we operate under.
14 Right now, Commissioner Brownell is here, as she mentioned
15 a minute ago. Chairman Pat Wood will be joining us any
16 minute, and I'll mention to you on the phone when he
17 arrives. And then around 2:00 we'll have Commissioners
18 Massey and Breathitt come in to join us.

19 I wanted to take this opportunity to thank all
20 of you for participating. I think this is just great, the
21 turnout that we've got here not only in terms of folks
22 that came up in person but also participating on the
23 phone. We have just a great turnout and, I think, a great
24 opportunity to make a lot of headway on what's going to
25 happen in the way of RTOs for the utilities in the

1 Carolinas.

2 I want to turn it over to Commissioner
3 Brownell. I think she had some remarks she wanted to
4 make.

5 COMMISSIONER BROWNELL: Yeah. I'm going to be
6 very brief. Thank you for taking time from what I know
7 are already overly taxed schedules. I'm particularly
8 grateful to my colleagues from North Carolina who actually
9 made the trek and found we couldn't even give them lunch
10 or a cup of coffee for fear of breaking the ex parte
11 rules. I promise you we're far more hospitable than this
12 under other circumstances.

13 The purpose of this whole new concept of
14 regional panels is to elevate the opportunity for us to
15 work together. As you know, we are very limited in our
16 ability to have conversations like this, but thanks to
17 some creative work on behalf of our general counsel, we
18 found a way under existing laws that we can do this.
19 While this isn't particularly as satisfactory as sitting
20 across the room and hammering out the deal, I think it is
21 an effective way to hear what your concerns are, what your
22 ideas are.

23 We've gotten some terrific, I think, innovative
24 approaches from some of our conversations from your
25 colleagues throughout the state, and it's our goal to find

1 a way to get to consensus about the how we transform the
2 market, what the organizational structures are that keep
3 in focus what we're all here for, and that is the end use
4 consumer. We want to bring benefits to him, and we
5 believe that fully competitive robust wholesale markets
6 can do that, but we understand there are some very
7 difficult and challenging issues for all of us to deal
8 with.

9 So we think that this will be useful. We know
10 it will be useful for us, because we learn a lot during
11 these conversations. We hope it will be useful for you.
12 The purpose of having so many Staff here is not to
13 outnumber my friends from North Carolina.

14 COMMISSIONER ERVIN: We're already outnumbered.

15 COMMISSIONER BROWNELL: The smart people in the
16 room, when you have technical questions, the smart people
17 are in the room and can answer them, because no one counts
18 us among those. So with that, unless the chairman of
19 either the North or South Carolina commissions would like
20 to say something, I think we've agreed that Commissioner
21 Ervin is going to tee this up with some comments that, I
22 guess, represent the thoughts of all of you.

23 COMMISSIONER ERVIN: Well, I don't know that
24 I'd go that far. For the record, this is Jimmy Ervin from
25 the North Carolina Commission, and I'll try to keep my

1 comments briefer than I generally do. But we do
2 appreciate very much the opportunity to come up and meet
3 with you in this fashion and do appreciate also the FERC's
4 consistent initiatives over the last several months to try
5 to improve the level of communication between state and
6 federal regulators, and we said this before, but I'll say
7 it again, that we do appreciate also the appointment of Ed
8 Meyers to head the office that he has. He's been in touch
9 with us regularly, and we appreciate having somebody up
10 here that we know to call when we need something.

11 We have tried to be active in the proceedings
12 that y'all have had up here over the last year or so. We
13 filed lots of comments, and I've got a lists of
14 proceedings, but I will spare you the details in terms of
15 naming them. We tried to participate in regional panels
16 when you've had them. We've participated in conference
17 calls and basically any other way that we could
18 participate.

19 I guess our biggest concern arises from the
20 fact that we have some trouble reconciling some of the
21 initiatives that we see coming from this body with the
22 persistence of the traditional vertically integrated
23 industry structure in North Carolina. I can see how some
24 of what has been proposed would fit a retail competition
25 model. I think there's some work that needs to be done at

1 an absolute minimum when you start trying to apply it to
2 the bundled retail environment that we still have.

3 We've given you these figures before, but just
4 as background information, most of the electric service in
5 North Carolina is provided either by vertically integrated
6 investor-owned utilities, the three principal ones are
7 CP&L, DP, and Dominion Resources. We have a significant
8 number of customers that take from municipal systems and
9 from cooperatives. The IOUs use their load using almost
10 exclusively generation that they own with a limited amount
11 of purchased power.

12 The municipals and cooperatives own interest in
13 plants as well. They have somewhat greater reliance on
14 the wholesale market, but even they own a significant
15 portion of the generation that they rely on.

16 This industry structure does not seem to me to
17 be subject to any appreciable risk of change by the North
18 Carolina general assembly in the near future. The general
19 assembly in North Carolina has studied the issue of retail
20 competition, but I think it's fair to say as an observer
21 and not involved on the inside of that process, it's
22 unlikely that North Carolina is going to go to retail
23 competition any time in the near future. I could be wrong
24 about that, but I don't think so.

25 Given that set of facts, it's our concern that

1 the wholesale market in North Carolina has a limited
2 impact on retail customers. As you indicated earlier, our
3 biggest interest is in what happens to the quality of
4 services provided to retail customers and the price at
5 which they pay.

6 And we are concerned, as we've said a number of
7 times, that some of the proposals that we've seen may have
8 an adverse impact on our ratepayers. I guess my lawyer
9 would probably want me to say this, too, that we also
10 question the legality of some of them, but I don't think
11 this is the time or the place to debate legal issues, and
12 I will spare you all that, unless you just want to get
13 into it.

14 But at bottom, our concern is that we are
15 concerned about the possibility that the cost of these
16 proposals may outweigh the benefits as they apply in North
17 Carolina. We are concerned about impairing the quality of
18 service received by end users in North Carolina, and these
19 concerns have motivated us to be -- to express
20 considerable doubt about the wisdom of some of them --
21 some of those proposals as they apply in North Carolina.

22 At this point, as we've said in a number of
23 filings, we're not convinced that a large Southeast RTO, a
24 smaller RTO, or, in fact, any RTO is right for us at this
25 time. That's not to say that we've made a determination

1 the opposite way either, but we just have concerns as to
2 whether our customers will benefit from that type of
3 proposal.

4 We've said a couple of times that we think
5 there are two types of analyses that need to be done. The
6 first is an analysis of whether the costs outweigh the
7 benefits from RTO formation and some of these other
8 initiatives. We appreciate your willingness to commission
9 the ICF study. We have filed comments expressing
10 reservations about the results of it. Again, I'm not
11 going to debate those here, but at least it's our current
12 position that the ICF study does not meet the criteria
13 that we think a proper study ought to meet.

14 Secondly, we're concerned that some sort of
15 profit analysis be conducted that examines the anticipated
16 and existing electric patterns, and anticipated transition
17 interconnections and constraints and other relevant
18 factors be performed so that you have some idea of what is
19 a proper RTO if, in fact, one is in the interest of our
20 customers.

21 Until relatively recently, we were constrained
22 in our ability to participate in meetings like this
23 because, like you, we're subject to various laws that
24 control what we say. For a large part of the time that
25 this conversation has been going on, we had applications

1 pending before us in which our jurisdictional utilities
2 asked for permission to join RTOs. While those
3 proceedings were pending, we essentially couldn't say
4 anything substantively, because we were bound by the
5 provisions of the code of conduct which prevent us from
6 commenting on issues that make -- that have come before
7 us.

8 So we were fairly reticent in saying anything
9 much. Those petitions have now been withdrawn. After the
10 withdrawal of those petitions, we sat down and tried to
11 figure out what could we do to constructively examine the
12 appropriateness of the proposals that we had seen coming
13 out of the FERC, tried to look at it with an open mind and
14 tried to improve our own state of knowledge concerning
15 this process.

16 Over the course of the last several weeks, the
17 North Carolina Commission at least has met with a range of
18 people, and I'll just give you a list of them so that
19 we'll try to get some sense of the breadth of the folks
20 that we've talked to, that we've talked to the GridSouth
21 sponsors on a couple of occasions. We've talked to the
22 attorneys general office and then made ourselves available
23 to talk to other public advocacy groups.

24 We've talked to representatives of North
25 Carolina industry customers. We've met with a group of

1 independent power producers. We have met with the
2 representatives of our municipal systems. We've met with
3 representatives of our rural cooperatives, and we've met
4 with representatives of Dominion.

5 So we think we've pretty well met with the
6 range of folks who we believe to have interest in these
7 issues, and stand ready, willing, and able to sit down and
8 talk with anybody else that we've overlooked. If anybody
9 reads this transcript and wants to talk about it, we can
10 do that.

11 As a result of all these meetings, we think we
12 have a better idea of where our various stakeholders, at
13 least, come to this process. We've also talked with other
14 southeastern state commissions at some detail. We've
15 participated in the preparation of an infrastructure study
16 that's in the process of being finalized, and we've talked
17 about doing some other things that would help better
18 inform us as to how this process ought to work out.

19 At the end of our own process several weeks
20 ago, we had a public meeting with representatives of all
21 of the interested parties, and I tell you this in order to
22 give you some sense of where we at least think we're
23 headed for purposes of this discussion. This is going to
24 sound kind of strange -- it may not sound strange, but
25 it's going to sound different, and the reason I want to

1 preface this description of where we think we're headed
2 with some more of North Carolina -- just like y'all can't
3 feed us lunch, we are prohibited from committing to
4 parties what we will do in proceedings that are likely to
5 come before us so that we could not sit down with the
6 GridSouth sponsors or any of these other folks and say
7 that if you do X, we'll do Y. And I need to keep my day
8 job, and so we didn't do that.

9 But we did encourage those parties to talk
10 among themselves, and we believe that Commissioner Kerr
11 has a better sense of how that process has gone than I
12 have, because he supervised more of it. But given that
13 limitation, we encourage them to talk among themselves.
14 And at the end of the public meeting that we held two
15 weeks ago, the GridSouth sponsors announced essentially
16 that they planned to take a couple of months, discuss some
17 possible modifications that they had for their own
18 proposal with other stakeholders in the North Carolina
19 area, and at that point come back to the North Carolina
20 Commission and, presumably, the South Carolina Commission,
21 although we try not to meddle in our colleagues' business,
22 and make a filing before us indicating what they wished to
23 do and then asking us whether we would approve it with or
24 without conditions.

25 And so it is my expectation that at some point

1 within the not too distant future -- it's not going to be
2 next week, but my sense was in a couple of months that we
3 are likely to get a filing from the GridSouth sponsors in
4 which they ask us to approve their current proposal. We
5 would then be required under our law to go through the
6 steps necessary to have a proceeding in which we would
7 have to develop a record in which parties that are
8 interested in that proceeding would have a right to be
9 heard, and then we would make a decision as to what we
10 would or wouldn't approve.

11 At that point we would be removed from the --
12 once we issued our decision in that case, we would then be
13 removed from the constraints that we've operated under for
14 the last X number of months and could give this body some
15 sense of where we were and were not coming from. And at
16 least we think it would be helpful if the FERC would allow
17 us to go through that process so that we can -- to the
18 greatest extent possible put ourselves in a position where
19 we can tell you what we think about these particular
20 substantive issues on the merits. That process also might
21 provide us with more education than we've already had
22 about your goals and what you see is the benefits of these
23 initiatives.

24 So I guess my request of you is that you at
25 least think about that particular type of a process. It

1 would certainly free us up to be more open with y'all as
2 to where we're coming from on substantive issues and
3 commend that to you at least as where we think we're
4 headed in terms of procedure. That's obviously something
5 that's going to be driven by when other parties make other
6 filings, but I don't anticipate that it's going to be more
7 than a couple of months or so until we hear something.

8 So we at least commend that to you as at least
9 a process whereby we can get our teeth sunk into these
10 issues in a more appropriate way. I realize that's kind
11 of backward to the way it's been done in other places and
12 that typically companies have come before the FERC and
13 asked for permission. Y'all have indicated to some extent
14 your approval for the GridSouth proposal, but most of
15 those orders were entered prior to July 11th or 12th. I
16 never have known what date to put on those orders.

17 And so there's some uncertainty -- at least I
18 sense some uncertainty in our meetings with the parties to
19 the North Carolina proceedings as to where GridSouth sits
20 after the July 12th orders and after the alliance orders.

21 But we at least feel we are trying to make progress toward
22 coming to our own determination of these issues and look
23 forward to working with you, to the extent that we can, to
24 come to some resolution of them, yea, nay, or somewhere in
25 the middle.

1 COMMISSIONER BROWNELL: Any other additions
2 from my friends here or in South Carolina? I have a
3 question, Jimmy, and I don't want to put you on the spot,
4 because we all have in a prejudgment risk.

5 COMMISSIONER ERVIN: Right.

6 COMMISSIONER BROWNELL: But it's my
7 understanding from conversations with some folks in the
8 state that the model that may emerge for your approval or
9 review in both North and South Carolina is somewhat
10 different than the model we have before us now.

11 COMMISSIONER ERVIN: That's correct.

12 COMMISSIONER OWENS: Bobby Owens from North
13 Carolina. Who is speaking?

14 COMMISSIONER BROWNELL: I'm sorry. It's Nora
15 Brownell. I'm not following our own rules.

16 COMMISSIONER ERVIN: Thank you, Bobby.

17 COMMISSIONER BROWNELL: I need lots of people
18 to keep me straight. Would you feel comfortable in
19 explaining that? The other thing I'd like to say is I'm
20 really pleased you met with the stakeholders, particularly
21 the public power, co-op, munis who are critically
22 important to these markets and with whom we've been
23 working very closely but they feel a need to be more
24 involved in the process.

25 COMMISSIONER ERVIN: Just as an aside, I

1 actually take from a municipal system. So I don't forget
2 them. Nora, you're correct. This is Jimmy Ervin with the
3 North Carolina Commission again.

4 You're correct in that it is our understanding
5 at the time that we met with the GridSouth sponsors -- and
6 this is something that they said in open session, so I
7 don't believe that it's any secret. They were talking
8 about discussing with the other stakeholders in the
9 informal process that we are involved with a change in the
10 model. The original GridSouth proposal, as understood it
11 anyway, was essentially a pure for-profit Transco.

12 They are now discussing a model under which at
13 least for the first -- Jim, correct me if I'm wrong. I
14 believe it was for the first five years they would operate
15 it on a not-for-profit independent system operator
16 administrator-type model reserving the right to ask for
17 permission to come at a later time and ask to reinstate
18 the Transco model. Subject to somebody correcting me, I
19 believe that is what they are talking about. Now,
20 obviously whether they ultimately decide to come forward
21 and propose that is not something that I can say.

22 COMMISSIONER KERR: I think also changes to the
23 board selection -- sorry. This is Jim Kerr from the North
24 Carolina Commission.

25 I think they're also talking about some changes

1 to the board selection process, that the company, the
2 sponsors hope will be more amenable to stakeholders. My
3 understanding of where they are is that in the open
4 session we had with all the stakeholders, they announced
5 conceptually these ideas, and then my understanding is
6 they're in the process of meeting with the various
7 stakeholder groups to negotiate, to talk about these
8 changes, and they're in the process of doing that.

9 I mean, this has all been -- our open session
10 was the Thursday before they filed their letter with y'all
11 on the status of GridSouth. So that was that 9th or 10th.
12 So it's been a couple of weeks, and they're working
13 through that process.

14 MR. CADDEN: This is Kevin Cadden with the
15 FERC. Just a question. So in about two months, the folks
16 at GridSouth would file something with the North Carolina
17 Public Utilities Commission and the South Carolina Public
18 Utilities Commission --

19 COMMISSIONER ERVIN: Give or take some time.

20 MS. RANKIN: Early June is what they told us
21 Friday.

22 MR. CADDEN: From your deliberative process,
23 how long does that generally stay before you guys for your
24 Commission --

25 COMMISSIONER ERVIN: This is Jimmy Ervin. We

1 have a lot more evidentiary hearings than you do. So
2 depending upon how they chose to file it -- and obviously,
3 if they would go ahead and file their testimony at the
4 time they file their application, that would probably
5 expedite matters somewhat. Of course, the flip side of
6 that problem is that there's something specific that we
7 want them to address, we really can't tell them what it is
8 we want them to address until we've seen the filing.

9 Typically, we will -- this is just going on
10 standard practice. This is not a prediction or anything,
11 but generally, we give intervenor parties generally about
12 a month after the filing of the prefiled testimony for the
13 applicants to file any testimony they wish to file, give
14 the applicant a shortened period of time to file rebuttal,
15 have a hearing.

16 Of course, there's no way to know how long that
17 hearing will last. One of the changes that I've noticed
18 in 20 years of involvement in the regulatory process, at
19 least our hearings are much shorter than they used to be.

20 And then it takes us -- you generally give
21 about 30 days to file briefs or proposed orders, and we
22 try to get them out -- there are some instances in which
23 we are subject to statutory time limits for getting orders
24 out, primarily general rate cases. We've got two gas
25 general rate cases pending right now.

1 So we're going to have three telephone cases,
2 not general rate cases, but three price regulation cases
3 which are also subject to some timeliness. Given that
4 background -- and statutorily they may wind up taking some
5 priority, because if we don't act within certain times,
6 people could do things whether we like it or not.
7 Generally, we try to get an order out within 30 to 45 days
8 after the briefs and proposed orders.

9 MR. CADDEN: So from North Carolina's
10 perspective, mid-September.

11 COMMISSIONER ERVIN: That would take a pretty
12 heroic effort.

13 MR. CADDEN: I'm sorry, ma'am?

14 MS. RANKIN: I'm Giselle Rankin with the
15 Commission Staff. Early September is probably when you're
16 talking about the hearing would be.

17 MR. CADDEN: The hearing before?

18 MS. RANKIN: The Commission.

19 COMMISSIONER ERVIN: August, September. If
20 they file, as Jim said, in June, if they file what they
21 think we need and we don't tell them to supplement it in
22 some way, then testimony would be July, and we might get a
23 hearing in August, but that late summer kind of time frame
24 is probably the most optimistic view of it.

25 MR. CADDEN: Would the response from South

1 Carolina be similar? Kevin Cadden speaking for FERC.
2 Would the South Carolina Public Utilities Commission,
3 ballpark same time?

4 COMMISSIONER CLYBURN: Yeah -- Clyburn. Yes.

5 MR. LARCAMP: This is Dan Larcamp from FERC
6 Staff. I just want to make sure I understand the
7 deadlines. Would it be fair to say we're talking early
8 next year for decisions from both of our state Commission
9 colleagues --

10 MS. RANKIN: Thanksgiving.

11 MR. LARCAMP: I heard hearing briefs, 30 days,
12 then 35 to 45 days. I'm saying late-this-year time frame?

13 COMMISSIONER ERVIN: This is Jimmy Ervin. I
14 think late this year would probably be about what we could
15 do, given the procedures that we have to follow, and the
16 North Carolina Commission has always placed pretty
17 significant emphasis on allowing broad intervention for
18 hearing basically what everybody has to say. We would
19 certainly apply that practice here as well.

20 COMMISSIONER KERR: This is Jim Kerr, North
21 Carolina Commission. One thing that is a little bit
22 different in this situation is we have gathered most of
23 the interested parties together informally. We similarly
24 have asked those parties to work together and at least
25 send a not so subtle message that the more issues y'all

1 get worked out, the more smoothly things go.

2 I think this is a situation, too, that is
3 somewhat unique in our normal docket in the sense that the
4 sponsors of GridSouth have invested real money. Maybe
5 unique in the Southeast. They are burning real money
6 every day that GridSouth stays in limbo. There is -- all
7 of our inaction or as we work through this comes at a real
8 price. So they are motivated.

9 Similarly, as you can imagine, most of the
10 stakeholders are interested in having some changes made to
11 the current system in the Southeast. And so they are
12 similarly motivated.

13 So of all the things I've been involved in in
14 my vast one year of experience at the Commission, is that
15 we've got folks lined up who are ready to work on this.
16 So this has a chance to move as quickly as -- you know,
17 for something of this significance, it has a chance to
18 move fairly quickly. Giselle, do you disagree?

19 MS. RANKIN: It depends upon when they're ready
20 and what they file, when they file.

21 COMMISSIONER ERVIN: This is Jimmy Ervin again.
22 I don't want anything I say to be construed as imposing
23 any kind of a deadline on companies. I would rather they
24 take whatever time they think is necessary to get a good
25 filing together so we can look at their best case filing

1 rather than something that they decide to move along with
2 quickly.

3 These folks have participated in proceedings in
4 front of us for years, and they've probably got a better
5 feel for us than we've got for ourselves. But I think it
6 is important that we get a good record so whatever
7 decision we make, up, down, or approval with conditions or
8 something else that I hadn't thought about yet, that it be
9 done on the basis of the best record as possible so we
10 know what we're getting into before we get into it.

11 COMMISSIONER KERR: This is Jim Kerr again.
12 Some of this, too, with respect to timing is relevant, I
13 think, to our friend President Nugent's letter last week
14 in terms of the burden that is being thrust upon the
15 states in working on any of these issues by just the shear
16 number of initiatives coming out of this building and the
17 tight time frames.

18 I would say some of this is that if we have the
19 chance to focus on a GridSouth application and a process
20 of looking at what would be best in that regard, somewhat
21 free from responding to issues up here, that certainly
22 makes it easier. We're humans. We've got the same 24
23 hours and seven days in a week that y'all have. We can
24 only do so much. We have less staff, I suspect, too, so
25 it's even harder.

1 COMMISSIONER ERVIN: Just looking around the
2 room, it's significantly less staff.

3 COMMISSIONER BROWNELL: Trust me, they're as
4 beaten down as the state staffs are. Let me say
5 something. We want you to build a record with which you
6 are comfortable --

7 MR. RODGERS: I just wanted to mention that
8 Chairman Pat Wood has just joined us. Excuse me,
9 Commissioner Brownell. This is Steve Rodgers.

10 COMMISSIONER BROWNELL: That's all right. So
11 we recognize and appreciate, frankly, the work that you
12 have done so far in gathering the stakeholders together.
13 From my own experience in Pennsylvania where the
14 stakeholders got consensus on legislation, the
15 stakeholders got consensus on what the rules were going to
16 be, and ultimately after we issued our brilliant
17 restructuring decisions, they got consensus on a better
18 way to do it than we had found, it's much cleaner and
19 easier.

20 So we -- you've heard our sense of urgency, and
21 you know it's there, and I think Pat will speak to that,
22 but we also respect the needs that you have in developing
23 something that makes you comfortable and a plan that makes
24 you comfortable. So I can't make any promises, because I
25 never speak for the other commissioners, but we are

1 working hard to respond to your individual needs. At the
2 same time, we also have a lot going, and I think that's
3 what Commissioner Nugent might have responded to, but the
4 standard market design and interconnections are intimately
5 integrated into this, and we don't want to do things in an
6 iterative way to create a picture at the end where the
7 pieces don't fit together.

8 And so just to understand from our perspective,
9 we can't do these things in isolation of each other, and
10 that's what we're trying to do.

11 With that, Pat, we're talking about the North
12 Carolina Commission and, I assume, the South Carolina
13 Commission got together their stakeholders. They've
14 agreed that they might look at a different model that they
15 will then present to their state commissions who will go
16 through the processes that they need to go through with a
17 possibility -- no commitments made -- a possibility of
18 having some decision by, I would say, late fall, just
19 being conservative.

20 But they've really done a good job of gathering
21 together the munis, the co-ops, the people that we've been
22 concerned -- we at the table, as well as the other
23 stakeholders. So that's kind of where we are.

24 COMMISSIONER ATKINS: This is Commissioner
25 Atkins. May I jump in with a couple of questions and

1 comments?

2 COMMISSIONER BROWNELL: Sure.

3 COMMISSIONER ATKINS: First of all, this is
4 probably for the North Carolina folks, but we'd like to
5 kind of hear what the FERC commissioners may think of
6 this. Is there opportunity or is it in the best interest
7 of the GridSouth folks for us to attempt to hold a joint
8 hearing on this matter, or is that going to be impossible?

9 COMMISSIONER BROWNELL: Joint hearing with us
10 or with the two states?

11 COMMISSIONER ATKINS: No, the two states. This
12 is really, while we've got them here, a question for the
13 North Carolina commissioners.

14 COMMISSIONER ERVIN: I wish you'd quit asking
15 easy questions.

16 COMMISSIONER ATKINS: I already asked you that
17 one.

18 COMMISSIONER ERVIN: That's true, too. This is
19 Jimmy Ervin again.

20 The short answer to that is that has never, to
21 my knowledge, been done before. The fact that it's never
22 been done before is not a reason to not do something, but
23 it does indicate that there are procedural issues that
24 would have to be worked out in advance.

25 I don't know much about what kind of rules the

1 South Carolina Commission has to operate under. I'm
2 certain at a minimum that we could probably coordinate
3 whatever we did.

4 Now, whether we could actually sit down in the
5 same room at the same time, I'd have to talk to my lawyers
6 before I answered that one. I'm certainly not opposed to
7 thinking about that.

8 COMMISSIONER ATKINS: Again, I ask that
9 question just in an attempt to try and avoid redundancy
10 and to save money. So if we could think about that, and
11 if it can be done, you know, just kind of put a place
12 marker on that one. Again, this is Buddy Atkins from the
13 South Carolina Commission.

14 Commissioner Brownell, I want to thank you for
15 your comments, because I think one of the things that, at
16 least in the Southeast that we've spoken a lot about --
17 and we appreciate you coming to Atlanta the other
18 weekend -- and that's that we believe that the standard
19 market design and some of the interconnection issues are
20 integral in the RTO issues. So there's going to have to
21 be some feedback on these things. To the extent that we
22 can try and blend these together, I think we've got to do
23 that to come out with a good work product.

24 The other thing that I'd like to bring up, too,
25 is, I guess, my concern over some of the public power

1 issues. You know, not to be an obstructionist, but some
2 of the concerns over the five-year contract for an ISO,
3 and then going back to a Transco-type of arrangement, to
4 me, is going to continue to be problematic for our public
5 power entities.

6 The other thing, too, is I think many of us --
7 I know I would -- would like to see them more involved in
8 GridSouth, but they have such an investment in SeTrans,
9 it's questionable whether or not they will come to the
10 table with GridSouth. I don't know if we need to talk
11 about that or not, but certainly that's one of my
12 concerns, because we could very well have a hearing, both
13 North Carolina and South Carolina commissions, and at the
14 end of the day not have public power involved.

15 COMMISSIONER ERVIN: Buddy, this is Jim Ervin.
16 At least one thing I thought I heard in our opening
17 meeting about the first of the two concerns that you
18 mentioned, the five-year time period, my understanding was
19 that the -- and I may be wrong about this, but I thought I
20 had understood them to say that in five years they could
21 come and apply for -- apply to us for such a change so
22 that that was not a transformation that they would have
23 the right to do on their own initiative, that instead,
24 they'd have to get regulatory approval before that was
25 done so that presumably any public power entity that was

1 concerned about that would have an opportunity to be heard
2 presumably here, as well as before us and y'all.

3 And again, I have no idea of what the public
4 power reaction to that will be, but I assume that was a
5 proposal that was intended to make the GridSouth model
6 more attractive to the municipal and cooperative
7 customers, at least that we deal with.

8 MR. RODGERS: Buddy, this is Steve Rodgers on
9 FERC Staff. And I was wondering if either the South
10 Carolina Commission or the GridSouth sponsors have spoken
11 with some of the public power entities that are not in
12 GridSouth in the last few weeks to see where they're at,
13 to see if there was an openness there to maybe signing up
14 with GridSouth.

15 COMMISSIONER ATKINS: There are a bunch of us
16 in a room together, Commissioner Clyburn and Commissioner
17 Mitchell and myself and the other two commissioners on
18 other calls, but to my knowledge, I don't think that's
19 happened.

20 COMMISSIONER ERVIN: Steve, this is Jimmy Ervin
21 again. There's a difference between the cooperative and
22 municipal customers in North Carolina and South Carolina.
23 Ours are completely transmission-dependent. Obviously you
24 have Santee Cooper in South Carolina that owns
25 transmission. So that's the difference between the two

1 states.

2 I know that they are -- or at least I am
3 reasonably confident that our municipals and cooperatives
4 have had some discussions with GridSouth folks, but
5 they're not a part of Santee Cooper and they don't own any
6 transmission. So I don't know that they'd be eligible to
7 even, quote unquote, join even if they wanted to.

8 COMMISSIONER ATKINS: This is Buddy Atkins from
9 South Carolina again. Santee Cooper is the fourth largest
10 public power entity in the nation, and their transmission
11 serves a great deal of the load for South Carolina
12 Electric & Gas, an incumbent utility here down in the
13 Charleston area. So they are literally integrated, those
14 two systems, as they well should be. As far as this
15 governance model that's developed, they've gone to
16 SeTrans, and it's going to take a great deal of cajoling,
17 so to speak, to get them back to the table.

18 MR. RODGERS: This is Steve Rodgers on FERC
19 Staff again. And I'm wondering if it's -- and I know you
20 can't prejudge this, but do you feel that that could be a
21 dealbreaker if Santee Cooper was not in GridSouth, that
22 that would make GridSouth unattractive to the South
23 Carolina Commission?

24 COMMISSIONER ATKINS: I don't know if anybody
25 knows if it's a dealbreaker or not. We, unfortunately,

1 have not stepped to the plate and had our stakeholder
2 meetings like North Carolina has. We're a little bit
3 behind the 8-ball relative to them. So I don't know if
4 any of us know that answer.

5 MR. RODGERS: Okay. I just had one other
6 question, if I could. I'm real intrigued by this idea of,
7 you know, having the states try to aggressively have some
8 proceedings and come to some resolution in terms of where
9 they're at on an RTO for North and South Carolina, and I
10 understand from what was said earlier that that might be
11 happening by the end of the year.

12 And I'm wondering if -- and again, I know you
13 can't prejudge anything, but is it your expectation that
14 at the end of that process, there would be a decision made
15 on some RTO for your states rather than a decision that
16 there was still no need for an RTO?

17 COMMISSIONER ERVIN: Steve, just to be
18 absolutely clear, that would be a prejudgment right there.
19 So the answer is we cannot -- at this point all we can
20 tell you is -- and speaking for myself only, all I'm
21 saying is that that type of proceeding would force us to
22 decide whether we would approve the application that was
23 before us, whether we would -- either as filed or with
24 conditions or disapprove it, so that the option of saying
25 that we are not satisfied that the applicants have proven

1 that the formation of an RTO would be in the public
2 interest is a live possibility.

3 And we cannot, under North Carolina law, answer
4 that any other way, because under our statute, we have
5 the -- our statute gives the North Carolina Commission the
6 right to approve or disapprove transfers of ownership or
7 control of utility assets, and we're supposed to -- before
8 we can authorize that, we essentially have to make a
9 finding that doing so is in the public interest, and it
10 certainly would be any party that chose to could come in
11 there and try to persuade us that such a proposal was
12 not -- such a decision would not be in the public
13 interest. And so I can't sit here right now and say to
14 you yeah, sure, we're going to approve something, we just
15 don't know what. If I said that, I'd probably be on the
16 next plane to some country that we didn't have an
17 extradition agreement.

18 COMMISSIONER BROWNELL: And we appreciate that.
19 We understand.

20 COMMISSIONER ERVIN: And I appreciate Steve
21 asking the question, because I don't want to -- I think
22 one of the things that we need to be very careful about is
23 not having a failure to communicate. Even if you don't
24 agree with what I say, I at least need to be clear in what
25 I'm saying in the reverse.

1 COMMISSIONER ATKINS: This is Buddy Atkins.
2 I'd like to try and chime in again, too. One of the
3 things -- whether it's a public interest test like Florida
4 has done or whether it's more of a cost/benefit analysis,
5 I think we're back to the concern over, you know, some
6 questions not being answered by the ICF, RTO cost/benefit
7 analysis that was done earlier, you know. When would that
8 be finished? Is FERC going to do another iteration?

9 We've actually hired ICF to do some work for us looking at
10 some of our changing markets having to do with merchant
11 plants and transmission and some other issues, and somehow
12 or another, we've got to figure out how much of that would
13 be appropriate to be in there, and it really goes beyond
14 the issuance of a filing that just looks at governance.

15 MR. WHITMORE: This is Charlie Whitmore at
16 FERC. On the cost/benefit study, I think we're looking at
17 all those issues right now. I don't think we have any
18 clear decisions on exactly what we're going to do. One of
19 the key issues for us is how this works with standard
20 market design, and I would -- it's certainly possible that
21 there will be a convergence of our consideration of those
22 two things on the cost/benefit level.

23 COMMISSIONER BROWNELL: Buddy, Nora Brownell.
24 When we were in Atlanta, I suggested that maybe some of
25 you, all of you, whether all of C group or the Carolinas,

1 wanted to get together to do their own cost/benefit study
2 to answer some of the unique questions that you have. The
3 study that Buddy referred to, are you doing that together?

4 COMMISSIONER ERVIN: At this point that's
5 something that it is South Carolina Commission is doing.
6 This is Jimmy Ervin again. I'm sorry.

7 COMMISSIONER ATKINS: And this is Buddy Atkins.
8 I guess to the extent that we probably can, we're probably
9 going to look to maybe GridSouth or BACAR in some of the
10 analysis simply because we have to. That goes back to my
11 original question on the joint hearing, because the Duke
12 and the CPL systems across North and South Carolina -- so
13 we really are -- do have an interstate system already.

14 MR. RODGERS: This is Steve Rodgers on FERC
15 Staff. I had a question for our friends down in South
16 Carolina. Buddy, you mentioned a minute ago that you guys
17 had not been doing as much homework or stakeholder work or
18 had GridSouth sponsors doing as much of that as has been
19 going on in North Carolina, and I'm wondering if as a
20 result of that, it would still be a reasonable expectation
21 that the South Carolina Commission would come to a
22 resolution of the GridSouth revised RTO filing by the end
23 of this year.

24 COMMISSIONER CLYBURN: I believe so. If you
25 note, we had -- whether we would agree it was progressive

1 or not, we had already approved as a Commission GridSouth,
2 and the company had taken -- had opted to withdraw,
3 Mr. Ervin. So I think even in the wake of that, I think
4 we could still be on that same time frame. Again, we
5 don't know what the companies themselves are doing, and
6 we've alluded to that, but in terms of organizing this,
7 no. Again, I think we will still be on that same track.

8 COMMISSIONER ATKINS: This is Buddy Atkins.
9 I'm looking at Staff counsel Ms. Kline, and she's kind of
10 shaking her head in agreement. The same problems between
11 FERC and the state, I don't know how North Carolina can do
12 one thing and we drag our feet because nobody else could
13 do it until we did it. So I think we're going to have to
14 coordinate this fairly closely.

15 COMMISSIONER BROWNELL: And as you say, there
16 may be a way to do it respecting your state laws that
17 allocates resources and builds a record more efficiently,
18 because these things are killers on Staff.

19 COMMISSIONER KERR: This is Jim Kerr. There's
20 maybe a month in there, if you don't have two hearings. I
21 mean, if you had one hearing, the idea that Bud through
22 out is something that we can certainly think about.

23 One thing that I think needs to be made
24 explicit is the standard market design initiative is
25 obviously running on a parallel track. So it is so fluid

1 you almost -- if you could stop the world for a second and
2 look at issues of scope or governance, that would be nice,
3 and then, of course, what happens in SMB may affect how
4 you view those issues.

5 So anything that a Commission, a state
6 Commission, ours or any other, would do would obviously be
7 conditioned, I think, upon the results of other
8 initiatives that are going on at the FERC, and this is
9 just me speaking for myself. You would come out with a we
10 think this could be a good idea under these circumstances
11 but certainly subject to significant changes based on
12 federal regulation. We obviously would have to be able to
13 pull it back and look at it if certain things were done,
14 whether it be SMB or any other initiative. I mean, we
15 can't -- we can't get all the issues bundled up at one
16 time.

17 COMMISSIONER BROWNELL: Pat may want to jump in
18 here, and actually, I'd like him to, but my observation is
19 that one of the reasons we're trying to keep these on
20 parallel tracks and have kind of a far more open process
21 is that you don't have to wait and get the big surprise at
22 the end. The white papers thus far have given a pretty
23 clear indication of what the thinking is, not that that
24 can't change with significant input. So hopefully you're
25 not being asked to make this scope and governance decision

1 in a vacuum without having any idea of where the rest are
2 going. Pat?

3 CHAIRMAN WOOD: This is Pat. Just from what
4 I've heard since I walked in, I guess one thing I'd like
5 to communicate to all of y'all at the state Commission
6 level is that a sense of what we are doing here is, A --
7 and I've seen something on what you have written
8 previously, we're not trying to drive everybody to retail
9 competition. If your state does not want to do that,
10 that's not what we're about. We're about making sure that
11 the wholesale market is competitive, that it attracts
12 generation.

13 I do know with a lot of interest, the story
14 from about two weeks ago in the trade press that heaven
15 forbid the west is getting plenty built up but the area of
16 the country that is looking a little generation starved is
17 BACAR. And I thought God, we never had to worry about
18 that.

19 So anyway, there are generation issues there,
20 there are transmission issues. We've got a lot of balls
21 in the air, quite frankly, because my perception, the
22 Commission hadn't done anything on those balls in the air
23 the last eight years, and that's a big reason we haven't
24 got some clarity at the wholesale level here.

25 What you do for retail is up to y'all at the

1 state level, but what we want to do is set up a foundation
2 so the wholesale market works. If that's where the ball
3 stops, I think there are plenty of savings to be had for
4 consumers there. We saw it on the gas agenda. Clearly
5 billions to gas consumers over the last decade.

6 If y'all want to open up your state gates,
7 that's certainly a decision that we don't really have any
8 say over, and quite frankly, our plate's full enough. But
9 that's kind of the big picture. We never have had that
10 discussion, and I want to say that ain't on my agenda. It
11 ain't on Nora's. We got to do that in our own states.
12 It's a good move, if you want to talk about it, but that's
13 not where our nickel is being paid for today and that's
14 not what our salaries get paid for in this job.

15 COMMISSIONER ERVIN: Just so you know, Pat, our
16 salary is paid by the general assembly who has told us
17 that's their problem and not ours.

18 CHAIRMAN WOOD: I heard that from my folks in
19 Texas back in '97, '98, '99.

20 COMMISSIONER ERVIN: Our statute says we are a
21 creature of the general assembly and I take our orders --

22 CHAIRMAN WOOD: We have to set up a wholesale
23 market that has just and reasonable rates. I happen to
24 think that, despite the California experience, that was
25 probably a wise decision a decade ago, but it's our job to

1 make sure that some of the excesses that, I think,
2 California pointed out in excruciating detail that were
3 left untended to get tended to, and part of that is making
4 sure you have a responsible organization. Y'all don't
5 want it to be the federal government, and I don't want it
6 to be the federal government, but it's got to be bigger
7 than one state.

8 I say that as a Texan even, because I recognize
9 that big parts of my own state are wedded to the same grid
10 that y'all are in the SERC region, and it's very important
11 to make sure you're setting up wholesale markets that are
12 contiguous with where the regulatory markets have
13 historically looked at things. I've heard from when you
14 and I met way back when, Jimmy, that there's a little bit
15 of concern about throwing in that hat as a Southern state
16 with all 13 Southern states, and I just want to say for
17 the record, my willingness to -- despite our agency's
18 push, to look at very broad, broadly defined energy
19 markets, I'm not so sure after what I've learned over the
20 last eight months that you need to have the transmission
21 provider, i.e., the RTO or the independent transmission
22 company or whatever be 13 states big, and I think we
23 started off there.

24 The mediation went there. I don't speak for
25 the full Commission on this, because I'm not sure where

1 Nora and Bill and Linda are on that, but I think if
2 there's a thought here that because of the jurisdictional
3 issues between the two of y'all states and because of the
4 nature of the current patterns of trade in that region of
5 the country, that a smaller organization might fit the
6 Bill. I'm open to that. I think as long as at the end of
7 the day it's integrated into a broader energy market, that
8 does cover a bigger boundary.

9 I think we can probably accomplish two good
10 things there, keeping governance more locally, but keeping
11 the benefits more globally. Maybe there is a win/win
12 there, and I've been told by a number of folks that that,
13 in fact, is very possible, particularly in the way that
14 patterns of trade work in the south.

15 So I'm open and want to help you folks as y'all
16 go forward in the state level. I want us to be as much a
17 pattern here as possible. We are not here to stuff it
18 down your throat or to lord it over anybody. We're here
19 to try to work in mutual benefit for our customers, and we
20 will carry that forward as long as I'm here. So I look
21 forward to working with you. I have to pop out for a
22 minute.

23 COMMISSIONER BROWNELL: Do you have any
24 questions for Pat, because he does have to leave?

25 COMMISSIONER OWENS: Bobby Owens from the North

1 Carolina Commission. I would like to commend him for his
2 statements, well-taken, well received. I appreciate his
3 comments.

4 CHAIRMAN WOOD: Thanks, Bobby.

5 COMMISSIONER BROWNELL: I actually think he
6 could speak for me on the issue of size and scope. I
7 think the point is what do we need to do to get it done
8 and make it work both for your comfort level and for our
9 overall responsibility in wholesale markets. So I'm not
10 wedded to geographical lines, never was actually.

11 COMMISSIONER KERR: Nora and Pat, this is Jim
12 Kerr. What is your reaction to this concept that we've
13 thrown out of our going ahead and pushing fairly hard to
14 have the matter considered formally by us as North and
15 South Carolina commissions and sending y'all something
16 that then has our input in a formal manner?

17 CHAIRMAN WOOD: Where do I sign?

18 COMMISSIONER BROWNELL: Ditto.

19 COMMISSIONER KERR: Sam?

20 COMMISSIONER BROWNELL: I think there's -- it
21 works to no one's benefit to have us on a head-on
22 collision. You're in a good position to understand what
23 your markets need. You understand it, I think, because we
24 do have a better communication going on of what our vision
25 is in terms of the wholesale market. So I would applaud

1 it. I think the fact that the uncertainty I think is
2 causing some disruption for everyone, to the extent that
3 you can put your resources to getting whatever decision it
4 is done, I think that would be enormously helpful to all
5 of the stakeholders.

6 COMMISSIONER ERVIN: This is Jimmy Ervin.
7 While we're talking timetables, as Jim said and as you
8 said several times, this whole exercise is intermingled
9 with the standard market design, et cetera, proceeding.
10 As we've said already, obviously, the outcome of that
11 proceeding is going to affect our thinking on some of
12 these questions. When you were down in Atlanta a couple
13 weeks ago, you kind of talked to us a little bit about
14 timetable for that thing, which I got the impression you
15 were talking about some time in the middle of summer.

16 Is that still in the decision -- presumably
17 following in due course after that, is that still the
18 Commission's thinking?

19 CHAIRMAN WOOD: Yes.

20 COMMISSIONER ERVIN: Because, as Jim said,
21 obviously our evaluation of any RTO proposal is going to
22 be colored by how that comes out, because -- and Pat, just
23 to respond what you said, in coming at it from a different
24 perspective, we are dealing with a situation in which
25 we're not sure that we need drastic change in North

1 Carolina. We could be wrong. I mean, I've been wrong
2 about lots of things in my time, and this could be another
3 one. But please understand that there is a concern on our
4 part that some of the things that come out up here, while
5 they may be fine, well, and good for other portions of the
6 country, that cause us to have some concern that they
7 might have impacts on our customers that differ from what
8 you expect.

9 Just as you asked us to work with you, we're
10 asking you to work with us in the sense that as perhaps
11 the last integrated monopoly, the market structure is
12 different here in North and South Carolina than it is in
13 other parts of the country. And what's good for everybody
14 may not be good for us, and it may actually hurt us. A
15 lot of our concern and a lot of our resistance today are
16 motivated by the worry that some of these changes may not
17 improve matters and may instead make them worse. Now, we
18 could be persuaded to the contrary, but that concern is
19 out there, and it's not going to go away. I think we're
20 all better off coming to grips with it directly than we
21 are just trying to act like it's not there, because it is.

22 CHAIRMAN WOOD: Fair enough.

23 COMMISSIONER BROWNELL: Fair enough. I'm going
24 to be the traffic cop here. We've got a changing of guard
25 outside. So we're both going to excuse ourselves.

1 MR. CADDEN: A little changing of the guard.
2 Chairman Wood and Commissioner Brownell are on their way
3 out, and Commissioner Massey and Commissioner Breathitt
4 are on their way in.

5 COMMISSIONER BROWNELL: Linda Breathitt is on
6 her way, so I will ask Jimmy to kind of tee up kind of the
7 nature of the proposal that we may be looking at and how
8 the process has been working, because it's changed, Bill,
9 from what has been filed before us now, and I have a
10 feeling it may be helpful in your thought processes.

11 COMMISSIONER ERVIN: I will spare you the five
12 minutes' worth of bull. He doesn't deserve that, I don't
13 think, does he?

14 Anyway, Commissioner, what we had -- after an
15 extended disposition on the fact that we are still
16 possessed with a vertically integrated industry structure
17 in North Carolina and also in South Carolina and
18 expressing some concerns arising from that factor, what I
19 told the group before you got in here was that up until
20 about two or three months ago, we were constrained a great
21 deal in what we could say about the issues that are here
22 before us today because of the fact that we had
23 proceedings pending before us in which North Carolina
24 Power & Light Company and Duke had applied for permission
25 to transfer control of their Commission assets to the

1 proposed GridSouth RTO, and similarly we had before us
2 Dominion's petition to join the alliance. Both of those
3 petitions were withdrawn several months ago, which freed
4 us up to do some kind of informal talking that our rules
5 would not allow while those things were still pending.

6 Now, we're still under the rule -- still
7 subject to the rule that we can't promise somebody that if
8 you'll do X, we'll do Y. We cannot make any commitments
9 as to what our rulings would be, and we have made no such
10 commitments. But we decided after the withdrawal of those
11 two petitions that we needed to sit back or to step back
12 and to try to educate ourselves more than we had educated
13 ourselves to date on these issues and to try to get a
14 better sense of where the various constituents that we
15 deal with were on these issues. And so we sat down and
16 had a series of meetings with a range of parties. We
17 think we talked to all of the major stakeholders that
18 exist in North Carolina. We have met with the GridSouth
19 sponsors. We have met with Dominion. We have met with
20 representatives of our industrial consumers. We have met
21 with a group of independent power producers. We have met
22 with municipals. We have met with cooperatives, and I
23 probably left one or two out at this point.

24 At the end of that process, we then had an
25 open, nontranscribed, nonformal meeting, which our rules

1 allow us to do as long as we have it in public. At the
2 end of that meeting in which we discussed a wide range of
3 RTO-related issues, the GridSouth proponents indicated
4 that what they proposed to do -- and this was really in
5 the nature of an announcement. It was not something that
6 we ordered them to do or anything. This was their
7 announcement. They announced that had they had in mind
8 some changes to the GridSouth proposal than y'all had seen
9 in previous proceedings, the most significant one of which
10 was to step back from use of a for-profit Transco model,
11 at least in the initial five-year period, that they would
12 instead propose to operate as a nonprofit ISO/ISA-type
13 arrangement. As I understood what they said, they had
14 indicated that they wanted to reserve the right, at the
15 end of that five-year period, to reapply to become a
16 for-profit Transco, but that that was not the initial
17 proposal and that they would have to get regulatory
18 approval from the appropriate bodies before that was done.

19 They also, as Jim reminded me, indicated that
20 they were planning on looking at the configuration of the
21 board and the manner in which it was selected a little bit
22 as well. What they told us that they proposed to do --
23 and we had been encouraging all of these groups to talk to
24 each other as well as us on the theory that it probably
25 did more good to talk to each other than to talk to us.

1 The GridSouth folks indicated at the end of that meeting
2 that they planned to discuss these proposed changes with
3 the various stakeholders who were involved in that process
4 and anticipated coming back and making a filing before the
5 North Carolina Commission, and I assumed they would make
6 it before the South Carolina Commission as well, although
7 we didn't talk about that in any detail in our meeting.

8 It was my impression then -- this is more an impression
9 than anything anybody said we're going to do this by X
10 date, but it was my impression that we were talking early
11 summer as to when such a filing might be made. They were
12 talking about sort of a two-month discussion process. If
13 we followed our normal process from that point on, we
14 would then make a decision on that petition some time
15 probably by the end of the year, and that's subject to
16 some vagaries of our own schedule that I don't want to
17 waste your time talking about, but that would at least
18 give us the opportunity to issue an order that says -- and
19 Steve and I had this clarification a minute ago, whether
20 we would approve their proposal, approve it subject to
21 conditions, whatever they might be, or disapprove it.

22 Now, we can't make any commitment to you and
23 wouldn't make any commitment to you because of our law and
24 because I genuinely don't know what I'd do until I hear
25 the others as to whether we would approve anything, but we

1 at least would be permitted, through such a proceeding, to
2 issue a formal decision which, in turn, parties could then
3 bring up here and they'd know where we were, because y'all
4 have been trying to reach out to us and in many instances
5 we tell you we can't talk to you because we haven't gone
6 through all of our own procedures. We would have done so
7 by that point.

8 At least without having entered any order,
9 that, I think, is probably where we're headed, and I
10 reported that to the group that was here at the beginning
11 of the meeting, and we've had some discussion about that
12 and other subjects since then, and Nora can remind me if
13 I've left anything out, but I believe that's pretty much
14 what I said, and we've been discussing a range of issues.

15 COMMISSIONER MASSEY: I appreciate you going
16 through that again for my benefit, I really do. Let me
17 ask you a question. This change in GridSouth that may be
18 proposed --

19 COMMISSIONER ERVIN: It's not anything formal.
20 They haven't committed to it. They're talking about it.

21 COMMISSIONER MASSEY: Right. Do you have an
22 opinion about what motivates that? Is it because they
23 feel that the state commissions might be more favorably
24 inclined to that, or is it do they think it's more
25 consistent with the standard market design? Do you know?

1 COMMISSIONER ERVIN: The short answer is I
2 don't know. My guess, if I had to make one, would be that
3 might have some greater degree of attractiveness to the
4 public power entities in North Carolina, but I don't know
5 that for a fact. That's just reading the newspapers and
6 making a somewhat informed guess.

7 MR. RODGERS: Let me mention that Commissioner
8 Brownell has departed and Commissioner Breathitt has
9 joined us. So now both Commissioners Massey and Breathitt
10 are here on behalf of FERC.

11 I had a question sort of related to that --
12 this is Steve Rodgers on FERC Staff, by the way -- about
13 whether this revision that the GridSouth sponsors are
14 considering to their RTO filing is something that the
15 North and South Carolina commissions are encouraging. Are
16 you supportive of that? I understand you can't commit to
17 any final decisions on how that's going to come down, but
18 is that something that you're pleased with, or are they
19 going in the wrong direction as far as you're concerned?

20 COMMISSIONER ERVIN: This is Jimmy Ervin. The
21 short answer is I can't answer the question. The truthful
22 answer on top of that is I don't know that we have a
23 position on that question. We have never -- unlike the
24 Louisiana Commission and unlike the Florida Commission, we
25 have never handed down any decision that says we like one

1 model over the other, and we've not heard it. I've not
2 decided it. I haven't thought through it, and so I
3 genuinely don't have a position.

4 COMMISSIONER KERR: I would agree. I would
5 think that it is -- to the extent that it is initiated by
6 the companies and is being negotiated by the stakeholders,
7 at this point, if some of them and more and more of them
8 get happy with it, that's progress, and then we'll look at
9 it once they decide, but it just hasn't come -- it hasn't
10 been put before us, and therefore I certainly don't have
11 an opinion.

12 COMMISSIONER ERVIN: I've certainly read some
13 of the filings that were made in the GridSouth proceeding
14 when it was before y'all previously, and some of the same
15 parties that expressed skepticism about it before would
16 have the right to come in and express the same skepticism
17 in front of us. If they don't do that for whatever
18 reason, that's one less argument that somebody's got to
19 address, and y'all know that the degree of controversy has
20 something to do with the outcome of the proceeding, even
21 if it really shouldn't, because it just does.

22 COMMISSIONER BREATHITT: Jimmy, to the extent
23 that -- or let me rephrase my question. This is Linda
24 Breathitt. This is to Jimmy and Jim and Michael.

25 In terms of how you participate, do you monitor

1 the stakeholder meetings, or are you generally keeping
2 apprised through updates that you get from the GridSouth
3 entities?

4 COMMISSIONER ERVIN: Linda, the answer to that
5 is that we have had at least one meeting ourselves with
6 everybody that I named, and I left out some of the public
7 advocate folks.

8 COMMISSIONER BREATHITT: I heard that from --

9 COMMISSIONER ERVIN: I left out some of the
10 public advocate folks. We had individually met with them.
11 We have also had this public meeting that I described. We
12 have encouraged all of them to talk to each other. We
13 have not participated in those other conversations and,
14 frankly, have not set up any process where anybody gets
15 back to us about that. You may have heard -- we hear,
16 sort of anecdotally, kind of things, but it's not a
17 regular reporting requirement. Now, Jim maybe --

18 COMMISSIONER KERR: I think what we did -- and
19 this is an interesting point. This is Jim Kerr. I think
20 this is an interesting point about the scope of an RTO.
21 One of the advantages to the GridSouth situation has been
22 that the size lends itself to fairly quickly -- I mean,
23 the stakeholder process doesn't suffer from just the
24 magnitude that I understand some of the efforts to the
25 south of us maybe had. It's a fairly small and efficient

1 group and what we left it with was there were four or five
2 folks that actively participated on behalf of the
3 sponsors, the public power, the IPP group, the public
4 staff, and the industrial -- CUCA, the Carolina Utility
5 Customers Association. We've kind of deputized the four
6 or five folks who most actively -- and this was informal,
7 but we just said you guys get together, work it out, as
8 soon as someone doesn't feel like you're making progress,
9 let us know and we'll call everybody back in. There's a
10 certain amount of informality that is available, yet
11 effective, given just the scope or absence of scope.

12 MR. MEYERS: This is Ed Meyers. I just wanted
13 to mention right before Commissioner Breathitt and
14 Commissioner Massey came into the room that Pat Wood said
15 to everybody that in his view that the RTO does not have
16 to be regionwide, does not have to be 13 states big, and a
17 smaller one might fit the bill just right with local
18 governance, even though the benefits could be captured
19 regionally, and Nora echoed that and agreed with that
20 statement. And he also mentioned that the FERC was not
21 intending, or at least speaking for himself, to drive
22 people to retail competition, that that was a matter
23 completely up to the states. He thought it might have
24 some benefits there, but he could talk about that in
25 another forum, but that he just wanted to reassure people.

1 So we started to talk about that when their time slots
2 were ending and got a few favorable comments but let it go
3 at that.

4 MR. RODGERS: This is Steve Rodgers on FERC
5 Staff. I wanted to ask our friends in North Carolina
6 about whether it's your understanding that the Dominion
7 Power piece that is in North Carolina, whether they are
8 participating in the GridSouth RTO discussions with the
9 stakeholders, and is that something that should be
10 encouraged? I mean, if you're talking about an RTO that
11 is going to be for your state and you have this piece that
12 is missing, is that something that's significant in your
13 view?

14 MS. RANKIN: This is Giselle Rankin. I've had
15 some discussions with the Alliance people. They view
16 their system as being run on an integrated system, and
17 where Virginia goes, North Carolina follows. That's their
18 position. You couldn't divide it. You couldn't run it
19 separate because of where the generation falls.

20 MR. RODGERS: North Carolina Power falls.

21 MS. RANKIN: Yeah, North Carolina Power falls.

22 COMMISSIONER ERVIN: Somebody from CPL and Duke
23 might be a little concerned by that statement.

24 COMMISSIONER KERR: This is Jim Kerr. They
25 came in and talked to us, and we threw around the

1 GridSouth alliances kind of up in the air, and I think
2 there's a lot of synergy between the Dominion folks and
3 the North Carolina folks for obvious reasons, or the
4 GridSouth folks. But I think they have -- this is my
5 personal opinion and based on nothing but listening to
6 people and trying to figure out what they are saying, that
7 they have some business reasons that force them to look
8 more towards the Midwest, and I think also having a retail
9 deregulation bill passed and the pressure to get going,
10 they need to find an RTO home sooner rather than later and
11 at least have a sense that they need to find an option
12 that's maybe up and running as opposed to getting involved
13 in the developmental process, whether that were GridSouth
14 or SeTrans or grid whatever in the Southeast, and they
15 just have some real practical reasons to work out --

16 COMMISSIONER ERVIN: This is Jimmy Ervin. I
17 had the same essential read on what they said, as Jim
18 expressed. Plus, they have openly said they have a main
19 domain strategy and we're not included. If you draw that
20 arc, we're not in it. Then the other thing is that they
21 indicated that they had historically had a good bit of
22 power exchanged with the companies to the -- in the
23 direction of Ohio, up in the Midwest, and that they felt
24 that that was likely to continue and that that was
25 intended to be more the direction in which they were

1 looking rather than thinking about coming down our
2 direction. Obviously, BACAR is something that has been in
3 existence for a long time. The potential impact of them
4 being a part of something involving us should be fairly
5 obvious from looking at that. It was always our
6 perception that their business interest had them looking
7 elsewhere. To some extent, that's the same issue that you
8 talked earlier with the South Carolina folks about Santee
9 Cooper. Dominion is not as big a part of the North
10 Carolina market as Santee Cooper is of the South Carolina
11 market, but it's the same kind of issue.

12 MR. RODGERS: Steve Rodgers on FERC Staff
13 again. Sort of a related question to that. I know that
14 back in January, the GridSouth sponsors and the SeTrans
15 sponsors entered into an MOU to try to work together more
16 closely on operational arrangements, trying to develop a
17 seamless transition market, and try to develop consistent
18 market design rules.

19 Is that something that -- have there been any
20 new developments on that, and is that kind of arrangement
21 something that your commissions are encouraging?

22 COMMISSIONER ERVIN: Again, you keep saying
23 "encouraging." Yet again, we are aware that that
24 memorandum of understanding was entered into. I don't
25 have any current sense of the degree of interaction

1 between the two bodies at this point. As I said earlier,
2 it was our understanding at the end of our public meeting
3 that the GridSouth folks were continuing to work on their
4 own proposal, and it's my sense that that's what their
5 plans are. We have not sent them any signal, because I
6 don't think it would be really be, A, wise, and, B, a good
7 idea for us to try to direct them as to what they ought to
8 do in that response, based upon the amount of information
9 that I've got right now.

10 So I don't have any sense that there is a great
11 deal of interaction between them, and it's my perception
12 that the GridSouth folks's first choice is to proceed with
13 their existing plan, broadly defined and subject to the
14 kind of modifications that I talked about earlier.

15 COMMISSIONER KERR: And I don't think -- this
16 is Jim Kerr. I think there's been confusion in the press
17 as to what that MOU ever was or wasn't. I think their
18 view was they were always talking about working on seams
19 agreements and trying to kind of integrate GridSouth with
20 whatever came out of the south, and my sense in talking
21 with the company folks is they continued to be interested
22 in that. They would be. Their expectation is, their
23 commitment is and their commitment is not -- I mean, their
24 commitment is with real money to GridSouth, but GridSouth
25 will have to be integrated into larger markets, and I

1 think they know that, and I think the NOPR on SMD will
2 certainly dictate a lot of that, too. They're going to be
3 participants on a regional basis, but I think the platform
4 that they anticipate doing that from is GridSouth.

5 MR. CANNON: This is Shelton Cannon with the
6 FERC. To take the question a little bit away with what
7 you might do with that kind of -- what the merits call
8 would be on this, I'm sort of curious --

9 COMMISSIONER KERR: The economists has failed
10 to stake this out, so now one of the lawyers is going to
11 try.

12 MR. CANNON: Can you tell? From the process
13 point of view, I was just wondering, clearly South
14 Carolina and North Carolina both have regulatory authority
15 over the disposition of any assets to either control or
16 ownership, I assume, to RTO. What about a memorandum of
17 understanding? Is that the kind of thing that they have
18 to come to either commission for regulatory approval if
19 they want to enter into that type of an agreement with
20 some neighboring RTO?

21 I'm just purely curious in terms of the process
22 at the state level, both for the South Carolina as well as
23 North Carolina.

24 MS. RANKIN: I think it depends upon what the
25 memorandum says. The one they signed obviously they

1 didn't because it really didn't say anything. It just
2 said they'd work together. They were actually going to
3 run their systems with someone else. That would be
4 something that could rise to that level.

5 MR. CANNON: So is the trigger actually somehow
6 disposing of the assets, either ownership or control to a
7 new entity? I'm just again trying to figure out what the
8 trips are here.

9 COMMISSIONER ERVIN: This is Jimmy Ervin. I'm
10 going to give you a vague answer. I think historically we
11 have taken the position that if you have a transfer of
12 ownership or control, that by itself is sufficient to
13 trigger the application of our transfer statute. There
14 have been occasions in which people have argued that some
15 other arrangement was tantamount to the same thing, and
16 the Commission has made a judgment on a case-by-case basis
17 as to whether a particular arrangement or contract was
18 tantamount to the transfer of ownership or control.

19 And so I don't think that there is any bright
20 line answer to your question. I think it depends upon
21 what the arrangement says. If it's tantamount to the
22 transfer of ownership or control of significant utility
23 assets, then we might attempt to assert jurisdiction over
24 it, but I couldn't really tell you more than that until I
25 saw the agreement.

1 I don't think historically, for example, we've
2 exercised a lot of control over the agreements between --
3 the reliability agreements that our utilities have had
4 among their neighbors because it seemed like a prudent
5 thing to do, and it didn't involve the type of
6 considerations that I was talking about.

7 So I guess a partial answer to your question is
8 if it was essentially a reliability type of issue, I don't
9 think that we've ever expressed any interest in exerting
10 control over it. If it got to the point that functional
11 control with the transmission assets of one of our
12 utilities was taken over by somebody at SeTrans, just as
13 an example, through -- even if it was just a contractual
14 arrangement, we would probably take the position that we
15 have approval rights over that.

16 Does that help any?

17 MR. CANNON: That helps a lot. How about South
18 Carolina? Do we still have somebody from South Carolina?

19 COMMISSIONER ATKINS: This is Buddy Atkins from
20 South Carolina. While we're still on that kind of
21 interlaced issues, let's hypothetically go to the future,
22 and let's say we have three RTOs in the Southeast,
23 GridSouth, GridFlorida, and SeTrans. I kind of want to
24 get the sense of where FERC might be in terms of -- and I
25 don't know if it has any relevancy to this now or not, but

1 it may, but FERC's opinion on where you folks may be
2 wondering in regards to your options paper whether or not
3 there be an umbrella planning organization over the top of
4 those three RTOs somewhere, and if it were, what it would
5 look like.

6 MR. RODGERS: This is Steve Rodgers on FERC
7 Staff. I hear, you know, ideas sort of far off in the
8 future kicked around like that, but to my knowledge, the
9 Commission doesn't have any specific plans or agenda to do
10 that. Maybe one of the two commissioners could weigh in
11 on what their personal views are on that, but if you want
12 my vote --

13 COMMISSIONER MASSEY: This is Bill Massey.
14 Under our RTO rules, each RTO is supposed to be the
15 planning entity for the region. So if you had three RTOs,
16 you would have three planning regions, but assuming that,
17 it would be better for a larger area that encompassed all
18 three to plan together, and it might very well, then I for
19 one would be perfectly happy to entertain proposals like
20 that, although I don't think the Commission has spoken to
21 that question at all.

22 COMMISSIONER BREATHITT: Buddy, this is Linda
23 Breathitt. The standard market design, the first document
24 that we issued spoke more about the planning process than
25 I think that options paper does. And it actually went, in

1 my mind, quite a bit further than what we said in Order
2 2000 about the planning and bidding out for the build-out
3 of facilities and that the RTO would be the ultimate
4 decisionmaker after a stakeholder process. So I wanted
5 just to offer that.

6 Also, the issue about whether or not it should
7 be done with some coordination among the three, I think
8 that might happen -- I mean, it won't happen on its own,
9 but I think that where facilities might cross from one RTO
10 into another, it would happen by virtue of necessity. So
11 we haven't spoken about that where facilities may go from
12 one region to another, but I would think there would need
13 to be some natural planning that would have to occur,
14 particularly the standard market design features that we
15 talked about in the first paper end up becoming a part of
16 a final -- incorporated into a final tariff.

17 COMMISSIONER ATKINS: This is Buddy Atkins.
18 Thank you, Linda. I appreciate that. I guess I asked you
19 that question because I was trying to look down the road
20 and think about the idea, for example if some of us like
21 North Carolina and South Carolina still have some siting
22 statutes, we're going to have to broaden those out to
23 include issues in other states that have implications to
24 us. And then also if we've just transferred operational
25 control to an RTO and not the assets, then we're going to

1 continue potentially to need to look at certain accounting
2 issues and, perhaps, track those.

3 And so there's going to be this big overlay
4 that might need to happen, and I guess I bring all this to
5 try and think about the interplay of a future state FERC
6 panel like we have in the Southeast and what role that
7 panel might play. There's just going to need to be a
8 continual need, it seems like to me, for coordination
9 between the states and the FERC on these matters. And
10 after we reconcile where the RTOs will be in their
11 geographic scope and governance.

12 COMMISSIONER MASSEY: Buddy, this is Bill
13 Massey. I think you raise a very good point. I think the
14 planning function for the RTOs is an area where I think
15 this Commission still has some work to do, and we need
16 your help in figuring out how to do it, how to do it well.
17 We said in the standard market design that the planning
18 function would be critical, that there would be more to
19 come. And I think you raise a really good issue about the
20 scope of planning, what's the appropriate region in
21 state/federal relations in the context of planning,
22 because obviously, we at FERC might see a need for new
23 facilities so that wholesale markets could work better,
24 but we don't have the authority to make that happen. We
25 have to count on your help in siting facilities that are

1 necessary.

2 COMMISSIONER ATKINS: What was your billing
3 address? 888 what?

4 (Laughter.)

5 COMMISSIONER MASSEY: I think you raised some
6 good points.

7 COMMISSIONER ATKINS: Thank you.

8 COMMISSIONER BREATHITT: Let me ask North
9 Carolina and South Carolina this, and it goes back to the
10 very first comment that I opposed when I came into the
11 room, which was the role of state commissions as
12 stakeholders or not as stakeholders. If you are
13 stakeholders -- it strikes me that if you become
14 stakeholders, then when filings come to you, you've
15 already participated in the document, the forming of a
16 document, and then would you be the impartial judge, but
17 we're asking for stakeholder input in the planning
18 process.

19 So do you see yourself as removed from that, or
20 are there ways that you could -- and that you'll just wait
21 for filings to come to you, or are there ways such as what
22 you described earlier of having your -- of hosting your
23 own stakeholder informational sessions? I'll just throw
24 it out to anybody.

25 COMMISSIONER ERVIN: This is Jimmy Ervin. I

1 will take a crack at that. We don't have a standard
2 position on that. I think our statutes require us to
3 adopt very much a judicial model so that we don't -- as a
4 matter of fact, we got reversed by the state Court of
5 Appeals a couple weeks ago for deciding a case that they
6 thought was not ripe for decision yet, basically the
7 public staff came in and asked that we declare a contract
8 to be contrary to the public interest. And after hearing
9 it, we did so. And the Court of Appeals said there was
10 not a sufficient controversy for you to make that
11 decision.

12 So if our court's going to take that attitude,
13 I hope that there will be some more review of it. That's
14 kind of the environment that we function in, and it's very
15 difficult for us legally to function in the manner that
16 you've described.

17 In addition to that, speaking only for myself,
18 I have trouble viewing a state Commission as a stakeholder
19 in the traditional sense. A stakeholder is somebody
20 that's got essentially a dog in the fight. Our dog in the
21 fight is we're supposed to look after the entire spectrum
22 of interest in the market in North Carolina, and to make a
23 decision in accordance with the provisions of our pretty
24 detailed statute. So it seems to me we are really not a
25 stakeholder in the sense that you think of in a

1 stakeholder process. That's just me.

2 COMMISSIONER KERR: This is Jim Kerr. That
3 goes both ways. Would you want us to be at the table as a
4 stakeholder when we ultimately have the vote as to whether
5 or not it goes forward or not? I wouldn't want to sit in
6 there negotiating, because, you know, we'd win, I think.

7 COMMISSIONER ERVIN: And there's also a
8 matter -- this is Jimmy Ervin. There's also a matter of
9 fundamental fairness involved in that. If we come in and
10 take a position that we then have to adjudicate, having
11 practiced in front of the North Carolina Commission for a
12 long time before joining it, I can understand how somebody
13 would feel about appearing in front of an ostensibly
14 neutral body that had already taken a position in some
15 other forum on the very question I was trying to litigate,
16 and I wouldn't like it very much.

17 COMMISSIONER KERR: It's been a tough issue,
18 and I don't know. I know NARUC at that level we talked
19 about it, and I would suspect that's probably a good forum
20 to come up with some better ideas. We talked -- I know
21 Jimmy and I have just beaten things around free form, have
22 talked about one of us working on this and recusing
23 themselves from consideration of it, just because you have
24 the practical issue of being able to move things forward
25 but not wanting to give up your judicial role as well.

1 COMMISSIONER BREATHITT: This planning area
2 strikes me as one area where there could evolve some
3 attention of needing to be the outside regulator that will
4 at some point receive some filing, but being able to come
5 up with a way to let it be known what you think about
6 certain facilities that -- so it's an interesting area
7 that probably we need to think through and that may or may
8 not work with your involvement in the planning process
9 that we're envisioning RTOs to have.

10 COMMISSIONER KERR: Again, this is just me --
11 Jim Kerr -- you think about it, whether there are going to
12 be reasonable compacts between the states to create some
13 appropriate role for regulators to get involved on a
14 broader issue, yet preserving their local role as well.
15 It's a hard one.

16 MR. MEYERS: This is Ed Meyers. I'm just
17 curious of the feeling of people. If you think there were
18 to be a structured role for the states in this, that it
19 would be primarily just on siting, or do you see the whole
20 range of planning issues involving, you know, generation
21 supply and demand side considerations and all of that
22 being structured as well in sort of a state and federal
23 type of board or panel?

24 COMMISSIONER ERVIN: Well, again, this is Jimmy
25 Ervin, with the caveat that my lawyer would want me to

1 make that we have taken the position in at least one
2 filing up here that I can think of that FERC does not have
3 generation authority. We have under our state statutes
4 for planning purposes pretty comprehensive planning
5 authority -- I'm now talking in circles. Our statutes
6 give us planning authority over generation, it gives it
7 over transmission, it gives it over the whole gamut of
8 things that you need to provide service.

9 And to the extent that our legal position is
10 otherwise rejected so that we don't have exclusive
11 authority over that, it would seem to me that most state
12 commissions would want -- and some of this was moved to a
13 regional level. Speaking for myself only, I would think
14 that our participation in such a regional body should be
15 as broad as the authority that we traditionally had, so
16 that it would include all of the issues that we
17 traditionally would have some say in under our planning
18 statutes as they exist now. We might not have total
19 control over it, because I don't think one state can
20 control a regional body by definition, but I would be very
21 reluctant to just say this is yours, we're not going to
22 mess with it anymore.

23 MR. MEYERS: As a matter of fact -- this is Ed
24 Meyers again -- the standard market design working paper
25 did provide for some sort of a planning relationship

1 between the states and the RTOs, so it would be
2 interesting to see what that could evolve to over time.

3 MR. RODGERS: This is Steve Rodgers on FERC
4 Staff again. I just had a question for both North and
5 South Carolina commissioners about whether you feel it
6 would help or hinder what you're going to be trying to do
7 in the coming months in coming to a decision on the RTO
8 for the Carolina utilities, to have members of FERC Staff
9 participate formally in what's going on down there in the
10 next few months. That could take the form of either
11 participating in the stakeholder process and in providing
12 that Staff member's viewpoints? They obviously can't
13 speak on behalf of the whole Commission, but they could
14 weigh in either through the stakeholder process or perhaps
15 through some other means in the proceedings that you have
16 going on down there.

17 The reason for that being, while I think it's
18 great that you guys are taking the lead on, you know,
19 figuring out what's going to be an acceptable RTO for you,
20 if any, in the Carolinas, it'd be a shame for everything
21 to be kind of set in stone before you had a read on what
22 FERC's reaction might be to that. That's sort of the
23 rationale behind that thought.

24 COMMISSIONER ERVIN: This is Jimmy Ervin again.
25 I can't speak for even myself here because I haven't

1 thought through that one at all, but it does seem to me
2 that that's certainly something we'd consider. I'm not --
3 I wouldn't reject it out of hand. I would assume that
4 y'all have regular contact with the companies, at least
5 their interstate folks. So there is that
6 interrelationship that exists now.

7 We have tried, just as I don't think of the
8 North Carolina Commission as a stakeholder, I have a hard
9 time thinking of the FERC as a stakeholder. But, I mean,
10 we're in a new world here in a lot of ways, and I'm not
11 going to close the door as I sit here on anything that
12 might be constructive.

13 MS. RANKIN: This is Giselle Rankin. To
14 actually participate in a proceeding, you'd have to
15 intervene. We don't have a process whereby you could file
16 comments or participate sort of informally because it
17 would be an evidentiary hearing.

18 MR. RODGERS: Okay. Thank you.

19 COMMISSIONER KERR: But that assumes the actual
20 filing of the application. Between now and the filing of
21 the application, there is not a docket. So your informal
22 participation would certainly work.

23 COMMISSIONER ERVIN: Of course, the South
24 Carolina folks can speak for themselves, and I'll let
25 Buddy do that or whoever down there would like to.

1 COMMISSIONER ATKINS: We're still alive and
2 participating. I don't know if we know the answer to that
3 or not. To the extent probably that whatever would be
4 legal and beneficial, we would want to try and do it, but
5 I don't know all the rules. If anybody with an attorney's
6 degree who is on the Commission is still on the call, pipe
7 in.

8 COMMISSIONER ERVIN: We've got two with us up
9 here, and it's not doing a lot of good.

10 COMMISSIONER MASSEY: Sometimes I find it's a
11 hindrance.

12 COMMISSIONER ATKINS: This is Buddy Atkins
13 again. I guess I'm kind of wondering if we approach the
14 3:00 hour, if commissioners, FERC Staff, Ed, Kevin, what
15 do y'all see happening with this call? Where is kind of
16 the next step from where FERC is concerned?

17 MR. CADDEN: That's a great question. I was
18 about to ask that question. Go ahead, Steve.

19 COMMISSIONER MASSEY: I missed the first half
20 of the call because of our procedural rules and so did
21 Linda, but as I understand it, what you're saying is you'd
22 like more -- you'd like to have some state proceedings
23 before additional action by FERC on any RTO dockets that
24 affect your states?

25 COMMISSIONER ERVIN: Yes.

1 COMMISSIONER MASSEY: Is that what you're
2 asking for?

3 COMMISSIONER ERVIN: Yes.

4 COMMISSIONER MASSEY: And what about the
5 standard market design, which will be turned into a
6 proposed rulemaking and hopefully finalized by the end of
7 the year? Which, as I understand it, states clearly the
8 principle that FERC would like or FERC will insist upon
9 independent grid operation and independent wholesale
10 market operation. And so I was just wondering what
11 your -- if you have any sort of opinions about those
12 concepts.

13 COMMISSIONER KERR: They're important issues in
14 both documents. So while we can address in an RTO, in a
15 scope doctrine a lot of those, if you pull some of the
16 issues into the SMD, then that becomes important, and it
17 strains how much we can get done or looked at in an RTO
18 GridSouth docket. So I think we talked about -- I know,
19 Bill, before you came in, we talked about that, you know,
20 our order for the North Carolina Commission would take the
21 form of, I guess, three options, you know: no, we don't
22 think any RTO; yes, we think this is a good proposal with
23 certain conditions; the third option being we don't like
24 this proposal, do something else.

25 But the conditions would obviously have to

1 address things like SMD, and we'd need to have -- I think
2 they would. I'm not smart enough to really figure all
3 that out, but my guess is we would have to condition any
4 approval on how other significant issues were resolved. I
5 mean, if there was something that were done in the SMD
6 docket that screwed up the way we had analyzed an issue in
7 an RTO docket, we do have enough lawyers to give ourselves
8 flexibility.

9 MR. CADDEN: So what you're saying is you would
10 proceed and help your privates move forward. So if you
11 were the big dog, right?

12 COMMISSIONER KERR: Part of the problem,
13 Kevin -- I would ask you to hold up the SMD docket if I
14 thought I had a chance.

15 COMMISSIONER MASSEY: I think we understand
16 that everybody in the world would like more time on
17 everything. We're getting hammered all the time by
18 virtually every interest saying you're moving too fast on
19 everything you're doing.

20 COMMISSIONER KERR: And I remember, Bill --
21 this is Jim Kerr -- I remember you saying that at RTO
22 week, which is I've been around a long time and we started
23 out talking about this and have thought a lot about that.
24 I think part of the message we can give you today is in
25 the Carolinas progress is being made. In the last couple

1 of months in North Carolina we have assembled
2 stakeholders, the GridSouth companies are motivated to
3 either figure out that GridSouth is not going to work and
4 do something else or figure out that it's got a chance and
5 move forward. They have invested real money. They are
6 anxious to simply move forward one way or the other.

7 I think the stakeholders in the Carolinas are
8 excited about being called in and asked to get involved
9 and excited about where we are. So I know your concern
10 was you wanted to make progress, and I do think one of the
11 messages we have for you today is we've made some progress
12 in the Carolinas.

13 And what we are asking for, what Jimmy asked
14 for at the outset of the meeting was to give us the
15 opportunity to work with the sponsors and the stakeholders
16 in the Carolinas to as quickly as we can look at this
17 GridSouth as it's going to change without being further
18 burdened by as many initiatives from up here as we have --
19 also, the companies have the burden of filing on
20 GridSouth. I know they filed a letter the 10th, but
21 they're under some pressure, and you might clarify for
22 them what you want them to do. It may be participate at
23 this level, at the state level, and come see us when
24 that's done. That might be helpful to them to give them
25 some clarity.

1 COMMISSIONER ATKINS: Commissioner Atkins.

2 This is Buddy Atkins. One of the things I'm interested
3 in, and this is just me, we understand that wholesale
4 markets are going to develop and become more robust and
5 that we're going to operate our transmission systems
6 better and interconnect and possibly expand some of those
7 in the future. I think in regards to the RTOs, the thing
8 that will make me feel better in coupling the RTO issue
9 and the standard market design is the idea of who pays, of
10 whether it's participant funding or rolled in funding.

11 If it's participant funding, what does that
12 look like and what is the model for that. The idea of
13 whether or not there will be a single transmission tariff
14 that couples both retail and wholesale or whether those
15 will be separated, and then what those tariffs or tariff
16 will look like in terms of will it be flat, will it have a
17 distance component, will it have locational marginal
18 pricing in it, you know, what will it look like. And
19 once, I think, we have a better handle on where everybody
20 may be going with that, I think those are the concerns
21 that we have with an RTO, not so much, at least for me,
22 the governance issue or the geographic scope.

23 COMMISSIONER MASSEY: This is Bill Massey. I
24 think those are all really good points. I think that a
25 number of states are interested in the participant funding

1 concept. They want to understand it. They want to know
2 whether or not Congress is going to legislate it. They
3 want to know what our position here at the FERC is on it.
4 And you don't want the creation of an RTO or siting of new
5 generation to increase your costs. I understand that.
6 Those are all good points, and clearly, issues in the
7 standard market design are related to RTO formation.
8 There's no question about that.

9 MR. RODGERS: Are there any other comments or
10 statements anybody would like to make before maybe we
11 adjourn for this afternoon?

12 COMMISSIONER ATKINS: South Carolina folks will
13 be up for lunch in a little bit.

14 COMMISSIONER ERVIN: They won't give it to you,
15 Buddy.

16 MR. CADDEN: There's no such thing as a free
17 lunch in Washington.

18 COMMISSIONER BREATHITT: That one you had in
19 October was the last one; right?

20 COMMISSIONER ERVIN: That's what we figured,
21 right.

22 COMMISSIONER MASSEY: Linda, I guess our role
23 here at FERC is to put our heads together and decide what
24 our position is on some of these questions that have been
25 raised, and send some signal.

1 COMMISSIONER BREATHITT: I agree with that. I
2 don't know how we will send the signal, whether we do it
3 through Ed or whether there's some orders coming up that
4 certainly on this next agenda, as we move down the road
5 with the interconnections, answers will be more
6 forthcoming. But this is useful to me, and certainly I
7 hope -- well, I hope it is to you, too.

8 COMMISSIONER KERR: Let me just -- this is Jim
9 Kerr. I think we have laid out fairly clearly and, I
10 think, very candidly where we are and what we anticipate
11 happening in the next six to nine months. I think it
12 would be devastating to everyone involved for us to
13 proceed down such a path miscomprehending that that was a
14 productive thing for us to do. In other words, if it is
15 not a productive exercise, I think in fairness to
16 everybody involved, this body needs to let everyone know
17 that it's not.

18 COMMISSIONER MASSEY: This is Bill Massey, and
19 I agree with you.

20 MR. RODGERS: All right. If there's no other
21 comments, we will go ahead and conclude today's panel, and
22 I want to thank again all of you who phoned in and
23 certainly those of who you made the trip up here for
24 participating. It's been very informative for those of us
25 here at FERC and, I hope, for you guys as well. So thank

1 you very much.

2 (Whereupon, at 2:50 p.m., the discussion was
3 concluded.)

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